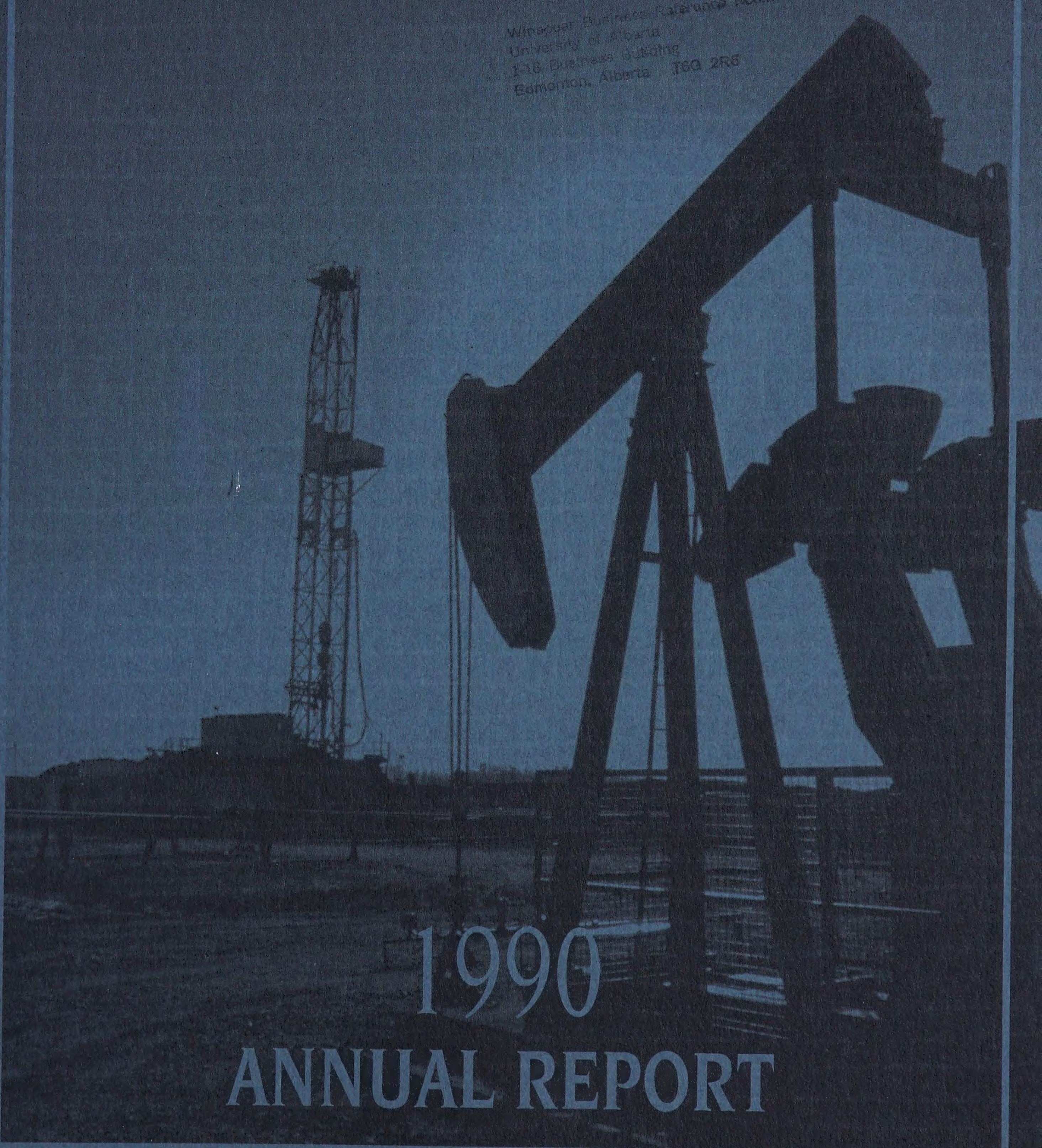
Petromines Limited



1990
ANNUAL REPORT

Contents

In four parts:
Business Report to Shareholders;
Annual Information Form;
Management's Discussion and Analysis of
Financial Condition and Results of Operations; and
Financial Statements

Business Report to Shareholders *is a brief summary of our past achievements, the current business environment in which we operate and the status of our operations.*

Annual Information Form *is a statutory document providing detailed information on our operations.*

Management's Discussion and Analysis of Financial Condition and Results of Operations *provides an analysis of our financial results and assesses our prospects.*

Financial Statements *contains our audited financial statements and three year historical summary.*

Renaissance Energy Ltd. owns 74% of the issued common shares of Petromines.

A copy of the Renaissance annual report may be obtained, upon request, from the Secretary of the Company.

The Annual Meeting of the Shareholders of Petromines Limited.

The Annual Meeting of the Shareholders of Petromines Limited will be held at 3:00 p.m. (Calgary time) on Tuesday, June 11, 1991 in the Main Boardroom of Renaissance Energy Ltd., Suite 3300, 400 Third Avenue S. W., Calgary, Alberta. Shareholders are encouraged to attend, and those unable to do so should complete the Form of Proxy and forward it at their earliest convenience.

Business Report to our Shareholders

In three parts: Review of Operations; Business Environment; and Operational Status.

Review of Operations *summarizes the highlights of our 1990 results and notes our achievements since 1986 in building shareholders' value.*

Business Environment *discusses the uncertainties of hydrocarbon supply and demand, commodity prices and capital markets facing the Canadian oil and natural gas industry and the anticipated impact on activity levels.*

Operational Status *details our sensitivty to commodity prices and debt leverage and our reaction to the current business environment and the impact on present and future operations.*

Review of Operations

Petromines achieved considerable progress in 1990, both financially and operationally. This progress can be measured by the following highlights:

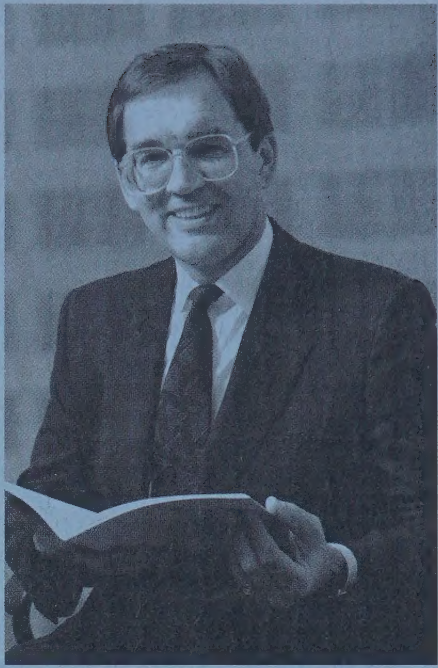
- Capital expenditures of $5.3 million were incurred in the participation of drilling 12 successful oil wells and related production equipment, thereby improving our production capacity.
- Petromines concluded the acquisition of an additional 25% working interest in the Hayter area for $4.3 million, bringing our total working interest in the area to 75%;
- Proven and probable oil reserves increased 22% to 22.1 million barrels after replacing production of 1.4 million barrels;
- Oil production increased 11% to average 3,826 barrels per day;
- Oil prices increased 19% to average $20.47 per barrel, and netbacks improved 12% to average $12.51 per barrel;
- Gross revenues increased 28% to $30.9 million;
- Cash flow from operations increased 26% to $10.8 million ($0.09 per share on a fully diluted basis);
- Net income increased 133% to $4.5 million ($0.04 per share on a fully diluted basis).

The increases in oil reserves and production volumes were due to the purchase of an additional 25% ownership in the Hayter area, a step-out development program in the Amisk area and higher recovery factors attributed to our reserves as a result of continued good production performance. The improvement in oil prices in 1990 masked the volatility during the year from a low of U.S. $16.00 per barrel in May to a high of U.S. $41.00 per barrel in October, fluctuating frequently thereafter to a current level of U.S. $20.00 per barrel.

Overall, our 1990 results of operations reflect the productive capacity that has been assembled since 1986. The amalgamation with RenDev Resources Ltd. created a substantial oil and natural gas company owned 75% by Renaissance, and financed by a $43.1 million convertible debenture payable to Renaissance. Since then, Petromines has expended $26 million in strategic property acquisitions, development drilling, and construction of production facilities, which has resulted in the following changes in performance benchmarks:

	Fiscal Period Ended December 31 1986	**1990**
Reserves (proven and probable)		
Oil (thousands of barrels)	5,771	**22,051**
Natural gas (billion cubic feet)	12.8	**10.5**
Daily production		
Oil (barrels)	1,554	**3,826**
Natural gas (million cubic feet)	3.7	**4.2**
Cash flow (millions)	$ 2.7	**$ 10.8**
Per fully diluted share	$ 0.05	**$ 0.09**
Net income (loss) (millions)	$ (1.7)	**$ 4.5**
Per fully diluted share	$ (0.26)	**$ 0.04**

Petromines has established a substantial base of oil reserves. In the process, shareholders' equity has been created as reserve values exceed its outstanding debt of $43.1 million.



Clayton H. Woitas
President & Chief Executive Officer

Business Environment

Uncertainties are endemic and risks are inherent in our business. Industry activity, profitability and competitiveness are influenced by global events affecting hydrocarbon supply and demand, commodity prices and capital markets. With volatility in each of these segments creating uncertain cash flows, our industry has responded by taking a conservative approach to expansion and reducing levels of activity.

World crude oil production capacity exceeds demand. The setting of and adherence to realistic production quotas by the OPEC cartel, and falling production in the two largest producing countries, the Soviet Union and the United States, influence this over-supply and, hence, oil prices. In addition, a shortage of refining capacity for heavier grade crudes exacerbates the over-supply for these crudes and creates premium pricing for light sweet crudes. Excess deliverability in the North American natural gas market continues despite a prolonged period of reduced exploration, market expansion and low prices. Natural gas demand and prices are influenced by weather patterns, consumer confidence and environmental awareness.

The Canadian oil and natural gas industry will face increased competition in tapping the international equity and debt markets to supplement its cash flows for capital expenditure programs. The appreciation of the Canadian dollar over the last few years is harmful to our industry's international competitiveness.

Operational Status

The increase in Petromines' asset base and production capacity has been largely financed by debt payable to Renaissance. This debt leverage renders Petromines vulnerable to the current weakness in commodity prices, particularly the widening discounts for heavier grades of crude which comprise the bulk of Petromines' production. As a result of this sensitivity and the current business environment, Petromines has adopted a conservative stance in the conduct of its operations.

We do not have an active exploration program in place, nor a substantial inventory of undeveloped lands on which to explore. Our business plan focuses on the development of our existing reserves, particularly our undeveloped oil reserves, and maximizing our netbacks from current production. Until such time as the economics of our business improve, our cash flow will be dedicated to our development programs and the reduction of outstanding debt.

Clayton H. Woitas
President and Chief Executive Officer
April 15, 1991

Annual Information Form

In five parts as required by statute:
The Company;
Management of the Company;
Business of the Company;
Summarized Financial Information;
and Share Capital

The Company *provides an historical summary of the formation of our Company.*

Management of the Company *identifies our Directors and Officers and data relevant to each individual.*

Business of the Company *provides disclosure of the industry's operating environment and our corporate land holdings, drilling results, reserves, major properties, production, marketing arrangements and netback economics.*

Summarized Financial Information *analyses certain financial data on capital expenditures and annual and recent quarterly operating performance measures.*

Share Capital *summarizes our authorized and issued share capital, public market for and insiders' holdings of common shares and our dividend record.*

The Company

Incorporation

Petromines Limited ("Petromines" or the "Company") was incorporated in 1948 pursuant to the laws of Manitoba and, following shareholder approval, continued under the laws of the Province of Alberta in 1986. On January 31, 1987, Petromines was amalgamated with Golden North Oils Ltd. and Ren-Dev Resources Ltd. The registered and principal office of Petromines is 3300, 400 Third Avenue S. W., Calgary, Alberta. T2P 4H2.

Subsidiaries

Petromines has no subsidiaries as at December 31, 1990.

Management of the Company

Renaissance Energy Ltd. ("Renaissance" or "Parent") owns 74% of the issued and outstanding common shares of Petromines. In addition, Petromines is debt financed by a fixed charge debenture payable to Renaissance. The debenture is convertible into shares, which upon conversion would increase Renaissance's ownership to 98%. As at December 31, 1990, the amount outstanding pursuant to this debenture totalled $43.1 million, representing all of Petromines' long-term debt.

All of our business and affairs are managed by Renaissance in accordance with a management agreement which includes provision for a fee equal to 10% of gross revenues. The directors and officers of Petromines are identical to those of Renaissance, consisting of eleven officers, three of whom also serve as directors. Four outside directors form the balance of the Board of Directors. The directors and officers do not receive any remuneration from Petromines. The following information is presented with respect to the directors and officers of Petromines as at April 15, 1991:

Name and Municipality of Residence	Office and Principal Occupation	Joined Petromines In	Age
Ronald G. Greene Calgary, Alberta	Chairman; Chairman of the Board of Renaissance	1986	42
Clayton H. Woitas Calgary, Alberta	Director; President and Chief Executive Officer of Renaissance	1986	42
J. Robert Paget * Calgary, Alberta	Director; Executive Vice President and Secretary of Renaissance	1986	49
Wilmot L. Matthews * Toronto, Ontario	Director; Vice Chairman and Director, Burns Fry Limited, an investment dealer	1986	54
Jonathan H. Deitcher * Montreal, Quebec	Director; Vice President and Director, RBC Dominion Securities Inc., an investment dealer	1986	44
Robert K. Dixon Calgary, Alberta	Director; President, Opinac Energy Inc., a petroleum exploration and hydroelectric producing company	1986	62
J. Dean Muncaster Toronto, Ontario	Director; Chairman, Bargain Harolds Discount Limited, a retail merchandising company	1986	57
John A. Thomson Calgary, Alberta	Senior Vice President, Finance and Administration and Chief Financial Officer of Renaissance	1986	41
Brian H. Gore Calgary, Alberta	Vice President, Land and Contracts of Renaissance	1986	39
Max Muselius Calgary, Alberta	Vice President, Marketing of Renaissance	1989	42
Sheldon B. Steeves Calgary, Alberta	Vice President, Exploration of Renaissance	1987	37
P. Grant Wierzba Calgary, Alberta	Vice President, Production of Renaissance	1987	40
Douglas A. Proll Calgary, Alberta	Treasurer of Renaissance	1988	40
Stephen R. Horner Calgary, Alberta	Controller of Renaissance	1987	38
Brent D. Kinney Calgary, Alberta	Assistant Secretary of Renaissance; Partner of Burnet Duckworth & Palmer, Barristers and Solicitors	1987	48

* *member of the audit committee*

Business of the Company

Corporate Profile and Development

The business of Petromines is the acquisition of petroleum and natural gas rights and the exploration for, and development and production of oil and natural gas in the Plains Area of Alberta. Renaissance is the operator of virtually all properties in which Petromines has a working interest. Operations are concentrated in the oil prone Provost region. The Dina oil formation dominates this area. Three separate fields in the Dina formation - Amisk, Hayter and Metiskow account for most of Petromines' operating activity. This area continues to provide in-fill drilling potential, enabling us to maintain production capacity at a low cost.

Competitive Conditions

The oil and natural gas industry experiences considerable commodity price volatility. This was particularly apparent in 1990. From a low of U.S. $16.00 per barrel in May, the price of oil more than doubled to a high of U.S. $41.00 per barrel in October, fluctuating frequently thereafter to a current level of U.S. $20.00 per barrel. Most of this volatility was due to the conflict in the Middle East.

Now that this conflict has abated, we expect a return to the more traditional forces that affect oil markets. We expect oil price volatility to continue as considerable uncertainty remains with respect to OPEC production levels, overall energy consumption, potential disruption of Soviet Union production, and depletion of non-OPEC reserves.

During 1990, natural gas markets showed clear evidence of independence from crude oil markets. In the North American market, the combined effect of above average temperatures, escalation of recessionary forces, and excess production capacity forced prices lower. Changes in these forces will continue to dominate future prospects for natural gas prices.

Petromines is unable to influence oil and natural gas prices and, accordingly, receives average market prices. Canadian oil and natural gas production exceeds domestic requirements, and excess volumes are exported to the United States. The Canada - United States Free Trade Agreement prevents discriminatory market limitations restricting available markets for oil and natural gas production.

The production of natural gas is inherently limited by the requirement for a substantial pipeline delivery infrastructure. This infrastructure is more complex and more capital intensive than the transportation structure for oil. Presently, most of the pipeline capacity outside the Province of Alberta is committed to existing long-term contracts and limits the ability of the industry to increase production from new reserves of natural gas. During 1990, both Canadian and United States regulatory bodies approved several pipeline projects which will substantially increase Alberta's export capacity by 1992/1993.

The Environment

Protection of the environment is an issue for the oil and natural gas industry both from its effect on consumer behaviour as well as on industry operating practices. Consumption patterns are expected to favour natural gas which is cleaner burning than other fuels. With the exception of this anticipated shift, it is impossible to predict the effects on consumption of increased environmental awareness and conservation programs.

Virtually all of Petromines' production is from wells operated by Renaissance. Renaissance's operating practices respond positively to environmental concerns. Operations are conducted exclusively in the Plains Area of Alberta, where modern facilities are continually being upgraded and environmental impact is minimized.

The oil and natural gas industry has, and continues to be, tightly regulated and constantly monitored. This regulation and monitoring helps ensure that environmental standards are maintained at the highest level. Renaissance has a continuing program of well site abandonment, clean-up and restoration which eliminates potential environmental problems and forces issues to the forefront in a timely manner.

Human Resources

Petromines does not have any employees, as its operations are managed by Renaissance pursuant to the management agreement.

Undeveloped Land

Petromines has a small inventory of undeveloped lands as most of its capital expenditures are devoted to infill drilling and development of existing fields. The following summarizes Petromines' undeveloped land holdings, all of which are in the Province of Alberta:

Undeveloped Land Holdings
Acres

December 31	1988	1989	**1990**
Gross acres	9,920	9,890	**1,240**
Net acres	6,010	6,506	**1,240**
Average working interest	61%	66%	**100%**

"Gross acres" means the area of land in which Petromines has a working interest. "Net acres" means the aggregate of the numbers obtained by multiplying each land area by our percentage working interest therein.

Drilling Activity

Over the past three years, Petromines drilled or participated on a working interest basis in drilling wells as follows:

Drilling Activity
Number of Wells

Year ended	1988		1989		**1990**	
December 31	Gross	Net	Gross	Net	**Gross**	**Net**
Oil	20	14	15	12	**12**	**11**
Natural gas	5	5	—	—	—	—
Dry	1	1	2	2	**1**	**1**
Total	26	20	17	14	**13**	**12**
Exploratory	6	5	—	—	**1**	**1**
Development	20	15	17	14	**12**	**11**
Total	26	20	17	14	**13**	**12**
Average working interest	77%		82%		**92%**	

"Gross" means the number of wells in which Petromines has a working interest. "Net" means the aggregate of the numbers obtained by multiplying each gross well by our percentage working interest therein.

Reserves and Future Net Revenue

Petromines' reserves of oil (inclusive of natural gas liquids) and natural gas, all of which are located in the Province of Alberta, have been evaluated as at January 1, 1991 by Sproule Associates Limited ("Sproule") in a report dated February 26, 1991. This evaluation covers all of our reserves. The following tables summarize the report. **All evaluations of future net production revenue set forth in the tables are stated prior to any provision for income taxes and overhead costs. It should not be assumed that the discounted value of estimated future net revenues is representative of the fair market value of the estimated petroleum and natural gas reserves.**

Oil Reserves (Gross)
Thousands of Barrels

December 31	1988	1989	**1990**
Proven producing	4,118	6,086	**5,987**
Proven non-producing	3,821	5,010	**9,181**
Probable	3,399	6,974	**6,883**
Total	11,338	18,070	**22,051**
Reserve life index (years)*	9.1	13.4	**15.9**

Natural Gas Reserves (Gross)
Billions of Cubic Feet

December 31	1988	1989	**1990**
Proven producing	9.7	8.7	**6.7**
Proven non-producing	1.8	1.8	**2.3**
Probable	2.1	2.4	**1.5**
Total	13.6	12.9	**10.5**
Reserve life index (years)*	8.1	5.4	**7.5**

Present Value of Reserves - Proven and Probable

December 31	1988	1989	**1990**
Present value of reserves discounted at 15% before income taxes (millions)	$ 74.9	$ 101.3	**$ 153.6**
Barrels of oil equivalent reserves (10:1) (thousands)	12,698	19,360	**23,101**
Reserve life index (years)*	9.0	12.2	**15.1**
Value per barrel of oil equivalent reserves	$ 5.90	$ 5.23	**$ 6.65**

* *Based on annualized fourth quarter production*

Estimated Petroleum and Natural Gas Reserves Based on Escalating Price and Cost Assumptions

January 1, 1991	Oil* (mbbls) (1) Gross (2)	Oil* (mbbls) (1) Net (2)	Natural Gas (bcf) (1) Gross (2)	Natural Gas (bcf) (1) Net (2)
Proven producing reserves (4)	5,987	5,091	6.7	4.9
Proven non-producing reserves (5)	9,181	7,571	2.3	1.6
Total proven reserves (3)	15,168	12,662	9.0	6.5
Probable reserves (6)	6,883	5,815	1.5	1.0
Total proven and probable reserves	22,051	18,477	10.5	7.5

* *Includes natural gas liquids*

Discounted Value of Estimated Future Net Revenue Before Income Taxes Based on Escalating Price and Cost Assumptions (10)

($ millions) January 1, 1991	Undiscounted	Discounted at the Rate of 10%	15%	20%
Proven producing reserves (4)	$ 85.6	$ 63.0	$ 55.7	$ 49.8
Proven non-producing reserves (5)	176.2	76.5	54.1	39.6
Total proven reserves (3)	261.8	139.5	109.8	89.4
Probable reserves (6) (8)	132.3	58.9	42.5	32.1
Total proven and probable reserves	394.1	198.4	152.3	121.5
ARTC (7)	1.5	1.4	1.3	1.3
Total	$ 395.6	$ 199.8	$ 153.6	$ 122.8

While industry practice is to estimate reserve volumes and future net revenues based upon escalating price and cost assumptions, these may also be estimated based upon constant price and cost assumptions. Under this latter scenario, future net revenues decline, and reserve volumes are reduced due to uneconomical production in the later years of the life of a reservoir.

Estimated Petroleum and Natural Gas Reserves Based on Constant Price and Cost Assumptions

January 1, 1991	Oil* (mbbls) (1) Gross (2)	Oil* (mbbls) (1) Net (2)	Natural Gas (bcf) (1) Gross (2)	Natural Gas (bcf) (1) Net (2)
Proven producing reserves (4)	5,628	4,769	6.7	4.9
Proven non-producing reserves (5)	8,608	7,094	2.3	1.5
Total proven reserves (3)	14,236	11,863	9.0	6.4
Probable reserves (6)	5,836	4,918	1.5	1.0
Total proven and probable reserves	20,072	16,781	10.5	7.4

* *Includes natural gas liquids*

Discounted Value of Estimated Future Net Revenue Before Income Taxes Based on Constant Price and Cost Assumptions (11)

($ millions) January 1, 1991	Undiscounted	Discounted at the Rate of 10%	15%	20%
Proven producing reserves (4)	$ 53.7	$ 43.2	$ 39.4	$ 36.2
Proven non-producing reserves (5)	53.3	27.4	20.6	16.0
Total proven reserves (3)	107.0	70.6	60.0	52.2
Probable reserves (6) (8)	37.6	22.3	18.1	15.1
Total proven and probable reserves	144.6	92.9	78.1	67.3
ARTC (7)	1.6	1.5	1.5	1.4
Total	$ 146.2	$ 94.4	$ 79.6	$ 68.7

The following notes summarize Sproule's assumptions and qualifications relating to estimated prices for future oil and natural gas production, operating and capital costs and certain other matters.

(1) *"Mbbls" are thousands of barrels. "Bcf" are billions of cubic feet.*

(2) *"Gross Reserves" are net of working interests owned by others and prior to deduction of Crown, freehold and other royalties. "Net Reserves" are net of all interests owned by others including royalties.*

(3) *"Proven Reserves" are defined as those quantities of crude oil, natural gas and natural gas by-products which, upon analysis of geologic and engineering data, appear with reasonable certainty to be recoverable at commercial rates in the future from known oil and natural gas reservoirs under presently anticipated economic and operating conditions.*

(4) *"Proven Producing Reserves" are proven reserves which are presently being produced from completion intervals open for production in existing wells.*

(5) *"Proven Non-Producing Reserves" are proven reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where relatively major expenditures are required for the completion of these wells, or for the installation of processing and gathering facilities prior to the production of these reserves. Reserves on undrilled acreage are limited to those drilling units offsetting productive wells that are reasonably certain of production when drilled.*

(6) *"Probable Reserves" are considered to be those reserves which may be recoverable as a result of the beneficial effects which may be derived from the future institution of some form of pressure maintenance or other secondary recovery method, or as a result of a more favorable performance of the existing recovery mechanism than that which may reasonably be deemed proven at the present time, or those reserves which may reasonably be assumed to exist because of geophysical or geological indications and drilling done in regions which contain proven reserves.*

(7) *"ARTC" means the Alberta Royalty Tax Credit.*

(8) *Probable reserve values have not been reduced to allow for risk.*

(9) *Natural gas reserves are reported at a base pressure of 14.65 psi and a base temperature of 60 degrees Fahrenheit.*

(10) *Escalating Price Forecast:*

	Oil		Natural Gas
	WTI at Cushing, Oklahoma $ US/bbl	*Light Crude at Edmonton $ Cdn/bbl*	*WGML Average Field Price $ Cdn/mcf*
1991	$ 23.00	$ 26.37	$ 1.44
1992	$ 24.25	$ 28.15	$ 1.58
1993	$ 25.50	$ 29.62	$ 1.80
1994	$ 27.50	$ 31.96	$ 2.16
1995	$ 30.00	$ 34.89	$ 2.53
Thereafter	*+5%-9%/year*	*+5%-9%/year*	*+5%-17%/year*

The oil price forecast is based upon the benchmark price of West Texas Intermediate (WTI) crude oil delivered at Cushing, Oklahoma. This forecast is adjusted for transportation and quality differentials and translated to Canadian dollars @ $1 Cdn = $.85 US in 1991 and $1 Cdn = $.84 US thereafter to reflect Edmonton refinery postings for 40⁰ API and 0.5% sulphur content crude oil. The natural gas price forecast is based upon average prices expected to be paid for Alberta production by Western Gas Marketing Limited (WGML), a wholly owned subsidiary of TransCanada Pipelines Limited. In the determination of Petromines' estimated future net revenues, these price forecasts are adjusted for any reserve quality characteristics and the provisions of any applicable sales contracts.

(11) *The constant price and cost assumptions assume the continuation of product prices, operating costs, laws and regulations as of February 12, 1991. Product prices have not been escalated beyond this date nor have operating and capital costs been increased on an inflationary basis.*

(12) *Petromines' net share of total capital expenditures, as forecast by Sproule, required to achieve the future net revenues are:*

($ Millions)	*Over Life of Reserves*	*1991 & 1992*
Based on Escalating Price and Cost Assumptions		
Undiscounted	$ 44.8	$ 7.5
Discounted at 15%	$ 22.5	$ 6.6
Based on Constant Price and Cost Assumptions		
Undiscounted	$ 35.4	$ 7.3
Discounted at 15%	$ 18.8	$ 6.5

Reconciliation of Reserves

The following table provides the changes in Petromines' gross reserves since 1987:

	Oil (mbbls)*			Natural Gas (bcf)		
	Proven	Probable	Total	Proven	Probable	Total
January 1, 1988	6,970	2,490	9,460	9.3	—	9.3
Discoveries and extensions	1,735	455	2,190	3.4	2.1	5.5
Purchases, net	—	—	—	—	—	—
Production	(1,284)	—	(1,284)	(1.3)	—	(1.3)
Revision of prior estimates	518	454	972	0.1	—	0.1
January 1, 1989	7,939	3,399	11,338	11.5	2.1	13.6
Discoveries and extensions	2,651	1,520	4,171	1.1	0.3	1.4
Purchases, net	818	420	1,238	—	—	—
Production	(1,260)	—	(1,260)	(2.1)	—	(2.1)
Revision of prior estimates	948	1,635	2,583	0.1	—	0.1
January 1, 1990	11,096	6,974	18,070	10.6	2.4	13.0
Discoveries and extensions	3,678	141	3,819	—	—	—
Purchases, net	687	527	1,214	—	—	—
Production	(1,397)	—	(1,397)	(1.5)	—	(1.5)
Revision of prior estimates	1,104	(759)	345	(0.1)	(0.9)	(1.0)
January 1, 1991	15,168	6,883	22,051	9.0	1.5	10.5

* *Includes natural gas liquids*

Oil and Natural Gas Wells

As at December 31, 1990, Petromines' interest in producing and non-producing wells, all of which are in the Province of Alberta, were as follows:

	Gross Wells	Net Wells	Average Working Interest
Natural gas wells			
Producing	16	6	35%
Shut-in	3	2	71%
	19	8	42%
Oil wells	153	118	77%
Total	**172**	**126**	**73%**

"Gross wells" means the number of wells in which Petromines has a working interest. "Net wells" means the aggregate of the numbers obtained by multiplying each gross well by our percentage working interest therein.

The stated interests are on an after payout basis and, in certain cases, are subject to landowner's and other royalties, in addition to the usual Crown royalties or mineral taxes.

Major Properties - Reserves

Petromines' reserve base is primarily oil in the Dina reservoirs of the Provost region. The production history of these reservoirs continues to support both current production rates and remaining reserves. The volumes and values attributable to Petromines' major properties, as determined by Sproule, are:

Volumes and Values

	Oil **		Natural Gas		Value *	
	mbbls	%	bcf	%	millions	%
Amisk	16,759	76	—	—	$ 96.4	63
Hayter	3,534	16	—	—	29.4	19
Metiskow	1,033	5	—	—	12.3	8
Forestburg	659	3	7.3	70	12.0	8
Other	66	—	3.2	30	2.2	1
	22,051	100	10.5	100	152.3	99
Alberta Royalty Tax Credit					1.3	1
					$ 153.6	100

* *Estimated future net revenues before income taxes based on escalating price and cost assumptions discounted at 15%*
** *Includes natural gas liquids*

Major Properties - Production

The following table sets forth the average daily net production from Petromines' major producing properties:

*Average Daily Oil Production Volumes**
Barrels

Year ended December 31	1988	1989	**1990**
Amisk	1,812	1,818	**1,779**
Hayter	518	526	**946**
Metiskow	699	624	**572**
Forestburg	479	484	**529**
Average daily production	3,508	3,452	**3,826**
Total annual (000's)	1,284	1,260	**1,397**

* *Includes natural gas liquids*

Average Daily Natural Gas Production Volumes
Million cubic feet

Year ended December 31	1988	1989	**1990**
Forestburg	2.2	3.3	**3.7**
Chinook	—	1.3	**0.2**
Other	1.4	1.0	**0.3**
Average daily production	3.6	5.6	**4.2**
Total annual	1,314	2,055	**1,516**

Major Properties - Description

The Amisk, Hayter and Metiskow fields in this region accounted for 86% of Petromines' oil production in 1990. During the first quarter of 1990, Petromines increased its working interest in the Hayter field from 50% to 75%, and upgraded the Hayter oil treatment plant.

Petromines has an ownership in modern, high volume and environmentally sensitive oil treating plants at each of Amisk, Hayter and Metiskow. Production in this region is from the Dina formation. An active aquifer provides a natural secondary recovery mechanism that results in high recoveries of the original oil in place. Water associated with the oil production is separated in the treating plants and reinjected into the zone of origin. A number of additional drilling locations remain in this region to sustain current oil production volumes.

Virtually all of Petromines' 1990 natural gas production, and 14% of its oil production came from the Forestburg field. The oil in this region is produced from the Dina formation. The oil in the pool is light gravity and is driven by an active acquifer which results in very high recoveries. The oil is treated at a Company owned battery. Natural gas production is also sourced from the Dina formation; however, these reservoirs are separate from the oil reservoirs and do not have an acquifer.

Marketing Arrangements

Pursuant to the management agreement between Renaissance and Petromines, all of Petromines' oil and natural gas is sold under Renaissance's marketing arrangements. Oil production is sold through a Canadian marketing broker on a netback pricing arrangement. The average quality of Petromines' oil is 24° API, which is classified as medium crude. Most of this crude oil is exported to refineries in the United States' midwest. Petromines' natural gas production is sold to the pipeline utility system on a netback pricing arrangement.

Netbacks

Petromines is unable to influence oil and natural gas prices, and market forces have resulted in considerable commodity price volatility in recent years. Accordingly, Petromines' ability to influence its profitability is largely determined by minimizing royalty and operating costs to generate adequate cash flows to reinvest in the business.

The following tables detail Petromines' netbacks over the past three years:

Oil Sales and Netbacks per Barrel

Year ended December 31	1988	1989	**1990**
Sales price	$13.71	$17.19	**$ 20.47**
Royalty (before ARTC)	(2.80)	(3.37)	**(4.36)**
Production expenses	(4.05)	(2.68)	**(3.60)**
Netback per barrel	$ 6.86	$11.14	**$ 12.51**
Percentage sales price	100%	100%	**100%**
Royalty (before ARTC)	20%	20%	**21%**
Production expenses	30%	15%	**18%**
Netback per barrel	50%	65%	**61%**

Natural Gas Sales and Netbacks per Thousand Cubic Feet

Year ended December 31	1988	1989	**1990**
Sales price	$ 1.45	$ 1.25	**$ 1.52**
Royalty (before ARTC)	(0.15)	(0.14)	**(0.16)**
Production expenses	(0.34)	(0.48)	**(0.58)**
Netback per thousand cubic feet	$ 0.96	$ 0.63	**$ 0.78**
Percentage sales price	100%	100%	**100%**
Royalty (before ARTC)	10%	11%	**11%**
Production expenses	24%	38%	**38%**
Netback per thousand cubic feet	66%	51%	**51%**

The yearly variations in the components of these netback calculations are analyzed in the Management's Discussion and Analysis of Results of Operations section of this report.

Summarized Financial Information

Capital Expenditures
($000's)

Year ended December 31	1988	1989	**1990**
Finding and on-stream costs			
Reserve acquisitions	$ —	$ 2,896	**$ 4,312**
Lease acquisitions and retentions	27	15	**18**
Seismic evaluations	156	—	**—**
Drilling and completion of wells	3,566	2,509	**2,266**
Equipping of wells	885	316	**859**
Pipeline installations	367	167	**403**
Central production facilities	982	1,821	**1,779**
Reduction for government incentives	(1,301)	(107)	**—**
Proceeds from asset sales	—	—	**(1,508)**
Total net expenditures	$ 4,682	$ 7,617	**$ 8,129**

Annual Data
($000's except per share amounts)

Year ended December 31	1988	1989	**1990**
Gross revenues before royalties	$ 19,505	$ 24,222	**$ 30,890**
Cash flow	4,599	8,544	**10,804**
Per share (fully diluted)	0.05	0.08	**0.09**
Net income (loss)	(2,100)	1,924	**4,488**
Per share (fully diluted)	(0.18)	0.03	**0.04**
Total assets	28,453	29,076	**33,714**
Total long-term debt	44,011	43,111	**43,111**

There have been no changes in accounting policies, significant acquisitions or divestitures, or major changes in the direction of Petromines' business that affect the comparability of this annual data.

Quarterly Data
($ 000's except per share amounts)

Three Months Ended	Gross Revenues Before Royalties	Cash Flow	Cash Flow Per Share*	Net Income (Loss)	Income Per Share*
March 31, 1989	$ 5,583	$ 2,211	$ 0.02	$ 525	$ 0.00
June 30, 1989	6,090	2,308	0.02	734	0.01
September 30, 1989	5,994	1,969	0.02	169	0.01
December 31, 1989	6,555	2,056	0.02	496	0.01
March 31, 1990	6,509	2,256	0.02	846	0.01
June 30, 1990	5,007	1,116	0.02	(354)	0.00
September 30, 1990	9,246	4,091	0.03	2,491	0.02
December 31, 1990	10,128	3,341	0.02	1,505	0.01

* *Fully diluted*

Share Capital

Description

The authorized capital of Petromines consists of an unlimited number of common shares, First Preferred Shares, Second Preferred Shares, Third Preferred Shares, and Fourth Preferred Shares, all without nominal or par value.

Each class of preferred shares ranks in priority, as to dividends and distribution upon dissolution, in the order of their designation, and has priority over the common shares. The shares of each class of preferred shares are issuable in series with such attributes as the Board of Directors may determine prior to the time of issue of the particular series. The following series of preferred shares have been authorized:

i) Third Preferred Shares, Series A - 2,244,440 shares with a stated value of $25 per share, carrying a cumulative quarterly dividend of 8.5% per annum. Each share may be converted into one Third Preferred Share, Series B.

ii) Third Preferred Shares, Series B - 2,244,440 shares with a stated value of $25 per share, carrying a cumulative quarterly dividend equal to a per annum rate of 75% of the average prime bank rate in effect during each quarterly period. Each such share is redeemable at $25 at any time, and is convertible into common shares at a rate of $.25 per common share. Each Third Preferred Share, Series B is retractable following a period of five years from the date of issue.
As at December 31, 1990, no preferred shares were outstanding.

The holders of the common shares are:

i) entitled to one vote for each common share held at all meetings of the shareholders of Petromines, other than meetings of the holders of any class or series of shares meeting as a class or series;

ii) entitled to any dividends that may be declared by the Board of Directors thereon; and

iii) entitled, subject to the rights of holders of shares ranking prior to the common shares, to receive the remaining property of Petromines upon dissolution, after the payment of all liabilities.

Market and Share Information

The common shares of Petromines are listed for trading on the Alberta Stock Exchange and trade under the symbol "PTR".

As at April 15, 1991, there were 12,049,293 common shares issued and outstanding, and a further 172,444,000 common shares reserved for issue upon conversion of the Third Preferred Shares which are in turn reserved for issuance pursuant to conversion of the $43.1 million debenture outstanding to Renaissance. Renaissance owns 8,944,149 common shares as at April 15, 1991, representing 74% of the outstanding common shares. On a fully diluted basis, Renaissance would own 98% of Petromines; however, conversion rights are limited to the extent that the holder of the preferred shares may not own more than 89.9% of Petromines' outstanding common shares.

To the knowledge of the directors and officers of Petromines, there are no shareholders other than Renaissance who presently own, directly or indirectly, shares carrying more than 10% of the voting rights attached to all the common shares of Petromines. One director and officer of Petromines beneficially owns 29,000 common shares as at April 15, 1991. At April 15, 1991, the other directors and officers did not own any common shares.

The following table summarizes our trading statistics over the last three years:

Share Trading Data

December 31	1988	1989	**1990**
Trading volume (000's)	190	80	**206**
Daily average	756	318	**825**
Trading value (000's)	$ 89	$ 22	**$ 64**
Share price			
High	$ 0.75	$ 0.45	**$ 0.50**
Low	$ 0.30	$ 0.17	**$ 0.22**
Average	$ 0.47	$ 0.27	**$ 0.31**

Dividend Record

No dividends have been paid on any of Petromines' common shares since the date of amalgamation. Any decision to pay dividends on common shares in the future will be made by the Board of Directors on the basis of Petromines' earnings, financial requirements, and other conditions existing at the time.

Additional Information

Additional information is contained in Petromines' Information Circular - Proxy Statement dated as of April 15, 1991, prepared in connection with the Annual General Meeting of shareholders to be held on June 11, 1991, which information is incorporated herein by reference.

Copies of the Information Circular - Proxy Statement, and additional copies of this 1990 Annual Report may be obtained, upon request, from the Secretary of Petromines.

Management's Discussion and Analysis of Financial Condition and Results of Operations

In three parts:
Results of Operations;
Liquidity and Capital Resources; and
Business Risks and Prospects

Results of operations *presents an analysis of our operating results both on an aggregate basis as well as individual line components of our statement of income. This analysis first discusses our 1990 versus 1989 results and then compares 1989 to 1988 for comparative and continuity purposes.*

Liquidity and capital resources *discusses those capital resources available to Petromines to sustain its business operations. As our revenues are generated from non-renewable oil and natural gas reserves, these capital resources are essential to the ongoing viability of operations in replenishing and augmenting our inventory of reserves.*

Business risks and prospects *presents a forward looking analysis of those business environment factors that most influence the course of our future operations, the philosophy of management in approaching these factors and, to the extent possible, the impact of these factors on future results of operations.*

Results of Operations

Cash Flow and Earnings

1990 Compared to 1989

Petromines increased its 1990 cash flow by 26% to $10.8 million and earnings rose 133% to $4.5 million due to higher oil production volumes and prices. Oil production increased 11% to average 3,826 barrels per day while the sales price rose 19% to average $20.47 for the year. The increase in sales price resulted in a 12% improvement in oil netbacks in 1990. Natural gas production decreased 26%; however, the average selling price increased 22% to $1.52 for the year, resulting in a 24% improvement in natural gas netbacks.

The growth in cash flow and earnings translated into per share increases of 13% and 33% respectively on a fully diluted basis. Cash flow per share amounted to $0.09 in 1990 compared to $0.08 in 1989, while earnings per share increased to $0.04 in 1990 from $0.03 in the prior year. The weighted average number of shares outstanding remained constant throughout 1990 and 1989.

1989 Compared to 1988

Cash flow in 1989 increased 86% to $8.5 million from $4.6 million, while earnings increased to $1.9 million of income from a loss of $2.1 million in 1988. Oil production of 3,452 barrels per day was basically unchanged from 1988 production of 3,508 barrels per day, and average sales price improved 25% to $17.19 in 1989. The higher sales price combined with lower operating costs for a 62% rise in oil netbacks. Natural gas production increased 56% over 1988 to average 5.6 million cubic feet per day. The sales price on this incremental volume was low, resulting in a 14% decrease in the average sales price for 1989 and a 34% decrease in natural gas netbacks.

On a fully diluted basis, cash flow per share advanced to $0.08 from $0.05, while earnings per share increased to $0.03 from a loss of $0.18.

Cash Flow and Earnings

December 31	1988	1989	**1990**
Cash flow (thousands)	$ 4,599	$ 8,544	**$10,804**
Per fully diluted common share	$ 0.05	$ 0.08	**$ 0.09**
Average cash flow/BOE*	$ 3.25	$ 5.83	**$ 6.98**
Net income (loss) (thousands)	$ (2,100)	$ 1,924	**$ 4,488**
Per fully diluted common share	$ (0.18)	$ 0.03	**$ 0.04**
Average net income (loss)/BOE*	$ (1.48)	$ 1.31	**$ 2.90**

* *"BOE" throughout this report refers to "Barrels of Oil Equivalent Production." Natural gas volumes are converted to oil equivalency at a ratio of 10 thousand cubic feet to one barrel.*

Gross Revenues

1990 Compared to 1989

Petromines' revenues increased 28% in 1990 to $30.9 million. Oil prices during the year began strongly, deteriorated to very low levels by mid-year, and escalated sharply over the last half of the year. The net result was a 19% increase in our average oil price. While world events dominated oil prices, two forces restrained price increases in Canadian oil markets. Firstly, the Canadian dollar appreciated against the U.S. dollar, (the international benchmark currency for oil prices), registering an annual average of US $0.857 versus US $0.845 in 1989. Secondly, market differentials for lower quality crude oil expanded during 1990. Since Petromines' oil production is medium quality, approximately 24° API, it received approximately $6.50 per barrel less than Edmonton postings for premium 40° API crude, up from approximately $4.00 in 1989.

While higher oil prices were the primary reason for the 32% increase in 1990 oil revenues, higher volumes also contributed to the increase. Higher volumes resulted from the purchase of an additional 25% working interest in the Hayter field effective April 1, 1990 and from infill drilling in the Amisk area during the fourth quarter.

Natural gas revenues decreased 11% during 1990. The decrease is attributable to lower production volumes partially offset by higher average sales price.

Throughout 1990, Petromines' natural gas was produced from one field, Forestburg, and sold under netback pricing to a Canadian shipper. The higher volumes sold during 1989 resulted from production from the Chinook area, which was sold on the spot market. At the end of 1989 management determined that the Chinook area was uneconomic to produce, and the area was shut in.

1989 Compared to 1988

Revenues increased 24% in 1989 to $24.2 million. Oil revenues improved 23% as a result of higher prices and stable production volumes. While world oil prices improved significantly throughout the year, these increases were limited by the continued appreciation of the Canadian dollar to U.S. $0.845 from U.S. $0.820.

Natural gas revenues rose 35% due to higher production volumes from the Chinook and Forestburg fields. Average selling prices were lower at $1.25, reflecting the spot market pricing of the Chinook production.

Revenues

December 31	1988	1989	**1990**
$ Thousands			
Oil revenues	$ 17,601	$21,651	**$ 28,591**
Natural gas revenues	1,904	2,571	**2,298**
Total	$ 19,505	$24,222	**$30,889**
Oil % change	(23%)	23%	**32%**
Average daily volumes	3,508	3,452	**3,826**
Average selling price/bbl	$ 13.71	$ 17.19	**$ 20.47**
Natural gas % change	(29%)	35%	**(11%)**
Average daily volumes	3.6	5.6	**4.2**
Average selling price/mcf	$ 1.45	$ 1.25	**$ 1.52**
Total % change	(24%)	24%	**28%**
Oil/natural gas ratio	90%/10%	89%/11%	**93%/7%**
Average price/BOE	$ 13.78	$ 16.53	**$ 19.95**

Royalty Expenses

1990 Compared to 1989

Petromines' average royalty rates have remained relatively constant for both oil and natural gas. Oil royalties averaged 21% in 1990 versus 20% in 1989, while natural gas royalties averaged 11% in both years. Petromines received rebates of royalty expenses under the Alberta Royalty Tax Credit (ARTC) program in both 1990 and 1989. In 1990, we received the maximum entitlement for the year amended for certain prior years' adjustments. The maximum limit of this program decreased to $1.7 million in 1990 from $3.0 million in the prior year. In 1989, Petromines did not have sufficient Crown royalties to claim the maximum credit.

1989 Compared to 1988

Oil royalties remained constant at 20% for both years. Natural gas royalties increased slightly to 11% from 10% in 1988. The amount of ARTC rebate increased to $2.1 million from $1.7 million in 1988 as Crown royalties accounted for a greater portion of the total royalty expense in 1989.

Royalty Expenses

December 31	1988	1989	**1990**
$ Thousands			
Oil royalties	$ 3,600	$ 4,249	**$ 6,093**
Natural gas royalties	196	291	**247**
ARTC rebates	(1,708)	(2,138)	**(1,900)**
Total	$ 2,088	$ 2,402	**$ 4,440**
Average % of revenues			
Oil gross	20%	20%	**21%**
Natural gas	10%	11%	**11%**
Total (net of ARTC)	11%	10%	**14%**
Average cost/BOE	$ 1.48	$ 1.64	**$ 2.87**

Production Expenses

1990 Compared to 1989

Oil operating expenses rose to $3.60 per barrel compared to $2.68 per barrel in 1989, resulting from a retroactive reduction of processing fees on third party oil production. Actual operating efficiencies were unchanged during the year. Natural gas operating costs increased to $0.58 per thousand cubic feet from $0.48 in 1989, due primarily to costs associated with shutting in the Chinook production.

1989 Compared to 1988

In 1989, Petromines oil production expenses decreased to $2.68 per barrel from $4.05 per barrel in 1988 due to economies from the installation of new production facilities at Metiskow. Natural gas production expenses increased to $0.48 per thousand cubic feet, reflecting the cost of processing natural gas in areas where Petromines does not own processing facilities.

Production Expenses

December 31	1988	1989	**1990**
$ Thousands			
Oil expenses	$ 5,201	$ 3,379	**$ 5,024**
Natural gas expenses	443	994	**877**
Total	$ 5,644	$ 4,373	**$ 5,901**
Average % of revenues			
Oil	30%	16%	**18%**
Natural gas	23%	39%	**38%**
Average cost per unit			
Oil	$ 4.05	$ 2.68	**$ 3.60**
Natural gas	$ 0.34	$ 0.48	**$ 0.58**
Average cost/BOE	$ 3.98	$ 2.98	**$ 3.81**

General and Administrative Expenses

1990 Compared to 1989

Management and administrative services are provided to Petromines by Renaissance for a fee equal to 10% of gross revenues. Other general and administrative expenses include costs of economic evaluation, audit, legal and shareholder services. Petromines does not capitalize any overhead associated with its capital expenditure program. The 22% increase in 1990 general and administrative expenses is attributable to the increase in the management fee arising from higher gross revenues, offset by a decrease in external service costs.

1989 Compared to 1988

General and administrative expenses increased 30% in 1989 to $2.6 million compared to $2.0 million in 1988. The increase results from higher management fees due to higher gross revenues in 1989.

General and Administrative Expenses

December 31	1988	1989	**1990**
$ Thousands			
Management fee	$ 1,950	$ 2,425	**$ 3,089**
Other	75	204	**124**
Total expenses	$ 2,025	$ 2,629	**$ 3,213**
Average % of revenues	10%	11%	**10%**
Average cost/BOE	$ 1.43	$ 1.80	**$ 2.08**

Interest Expenses

1990 Compared to 1989

Petromines' debt consists of a $43.1 million dollar convertible debenture payable to Renaissance. Interest on the debenture is calculated at 1% above the prime rate charged by Renaissance's chartered bank. The average interest rate increased to 15.1% in 1990 from 14.5% in 1989, resulting in interest expense of $6.5 million compared to $6.3 million in the prior year.

1989 Compared to 1988

Interest rates increased significantly in 1989, resulting in an average interest rate of 14.5% compared to 11.7% in 1988. Accordingly, interest expense increased to $6.3 million from $5.1 million in 1988.

Interest Expenses

December 31	1988	1989	**1990**
Interest expenses (thousands)	$ 5,149	$ 6,253	**$ 6,454**
Average cost/BOE	$ 3.64	$ 4.27	**$ 4.17**
Average debt outstanding	$ 44,011	$43,111	**$43,111**
Average interest rate	11.7%	14.5%	**15.1%**

Depletion and Depreciation

1990 Compared to 1989

Petromines' depletion and depreciation cost per barrel of oil equivalent production decreased 10% to $4.08 in 1990 due to continued positive revisions in the proven reserves of our Dina oil fields. The method of calculating this rate is conservative, as accounting convention stipulates that it be based only upon proven reserves determined using constant price and cost assumptions.

1989 Compared to 1988

In 1989, our depletion and depreciation rate decreased to $4.52 per BOE from $4.73 in 1988. Once again, this decrease represents the continued good performance of our oil fields.

Depletion and Depreciation

December 31	1988	1989	**1990**
Depletion and depreciation (thousands)	$ 6,699	$ 6,620	**$ 6,316**
Average cost/BOE	$ 4.73	$ 4.52	**$ 4.08**

Liquidity and Capital Resources

At December 31, 1990 Petromines' capitalization was comprised of 12,049,293 common shares outstanding and a $43.1 million fixed charge debenture payable to Renaissance. The debenture bears interest at prime rate plus 1% and is convertible into 172,444,000 common shares. Petromines is contingently liable under the debenture for an additional obligation of up to $13 million. The obligation, if any, will be calculated in 1992 based upon average oil and natural gas prices during the period March 1986 to March 1992. Based upon prices from March 1986 to the present, we do not believe that the contingent obligation will become payable. Renaissance, which owns 74% of the outstanding common shares, has advised that it does not intend to demand repayment of the debt and will continue to support Petromines in order for its assets to be realized and liabilities extinguished in the ordinary course of business.

Working capital liquidity is maintained by an unsecured, non-interest bearing intercompany account with Renaissance. On December 31, 1990, Petromines loaned $5.8 million to Renaissance under a demand promissory note which bears interest at prime plus two percent. This working capital position and cash flow from operations in 1991 are expected to be sufficient to fund capital expenditures and allow for some reduction of outstanding debt.

Business Risks and Prospects

Business Risks

The exploration for, and production of, oil and natural gas is a business with no certainty of supply or marketing of hydrocarbons. In general, Petromines mitigates these risks by contracting for management services with Renaissance. Through Renaissance, we have access to highly qualified professional staff, stable, well-managed suppliers, extensive use of new technologies and a modern, environmentally sensitive production facilities.

Two of our main business risks are commodity price volatility and regulatory intervention. As Petromines is unable to influence commodity prices, our price realizations are dictated by market forces. Accordingly, we have adhered to conservative cash management policies to offset this inherent business risk. Regulatory intervention in, and taxation of, the oil and natural gas industry have historically been high. Petromines is unable to control the direction of future public policy and the resultant impact on operations. In late 1989, the Province of Alberta announced two changes to the Alberta Royalty Tax Credit legislation which have since become law. The first change caused the program to be oil price sensitive for 1990 and subsequent years, and also reduced the minimum entitlement for ARTC to less than $1.9 million from $3.0 million. The second change is effective January 1, 1992 and precludes Petromines from making a separate ARTC claim from Renaissance. ARTC received by Petromines amounted to $1.9 million in 1990 and $2.1 million in 1989.

Protection of the environment is an issue for the oil and natural gas industry, both from its effect on consumer behaviour and industry operating practices. Consumption patterns in the future are expected to favour natural gas, which is a cleaner burning fuel, however, the timing of this anticipated shift is impossible to predict. Also, it is difficult to assess the impact of increased environmental awareness and conservation programs. Government regulation and monitoring of industry operating practices ensures that environmental standards are maintained at the highest level.

Petromines relies on Renaissance to ensure that operating practices respond positively to environmental concerns. Renaissance has a continuing program of well site abandonment, clean-up and restoration. This program eliminates potential environmental problems and forces issues to the forefront in a timely manner.

Business Prospects

Considering the aforementioned business risks, any commentary on the future prospects for the industry and Petromines is difficult. However, within this context, certain trends or events are important.

Since 1985, the oil and natural gas industry has experienced considerable commodity price volatility, which is expected to continue. This volatility will be influenced by OPEC production levels, overall energy consumption, potential disruption of Soviet Union production and depletion of non-OPEC reserves.

On a corporate level, several factors that will affect Petromines' results of operations in 1991 and beyond deserve comment:

- Gross revenues

  Petromines will continue to derive most of its revenue from oil production. Our oil fields have demonstrated excellent production performance, and we expect that these levels can be maintained through development drilling. Oil prices are set on a spot market basis and continue to be volatile as world events influence benchmark prices, the foreign exchange level of the Canadian dollar fluctuates against its U.S. counterpart, and lighter grades of crude oil attract premium pricing.

  Natural gas revenues will depend on the production volumes and price realizations from our Forestburg wells.

  Both oil and natural gas production volumes will be sensitive to our development programs offsetting reservoir depletion

- Royalties

  Oil royalties are expected to average 22% during 1991, as we do not anticipate any significant change in the existing royalty structure. Natural gas royalties on our Forestburg wells should remain constant at approximately 11%.

  The Alberta Royalty Tax Credit program is price sensitive, and maximum entitlements in 1991 will vary with commodity prices. In addition, commencing in 1992, Petromines must share one maximum entitlement with Renaissance and its related companies.

- Operating expenses

  Oil and natural gas operating expenses are expected to average approximately $4.00 per barrel of oil and $0.50 per thousand cubic feet of natural gas during 1991.

- General and administrative expenses

  As the management fee to Renaissance is the primary component of general and administrative expenses, the 1991 overhead cost will depend upon gross revenues for the year.

- Interest expense

  Interest expenses in 1991 are expected to decrease. The prime rate has decreased from 12.75% as at December 31, 1990 to 10.75% as at April 15, 1991, which will reduce interest payable on the $43.1 million debenture. Also, Petromines loaned Renaissance $5.8 million at the end of 1990 under a demand note which bears interest at prime rate plus 2%. Interest income from this note receivable will reduce our net borrowing costs in 1991.

- Depletion and depreciation

  On a per unit basis, finding and on-stream costs and, accordingly, depletion and depreciation, are expected to remain stable.

- Taxes

  Our accumulated tax pools of $39.8 million are expected to continue the deferral of current income tax liability in 1991. Our 1991 tax provision is expected to be nil, as Petromines will continue to utilize accounting losses of prior years to eliminate income for tax purposes.

  As the Goods and Services Tax is a tax on ultimate consumption, we do not anticipate bearing any cost from it nor any benefit from the elimination of the previous Federal Sales Tax.

  The Large Corporations Tax is a non-deductible capital tax. We estimate our 1991 liability for the tax at approximately $100,000.

We expect volatility in commodity prices to continue. This price volatility, combined with our highly leveraged capital structure, requires conservative cash management policies. Our 1991 capital expenditure program will focus on development of our existing petroleum and natural gas reserves and will be funded by internally generated cash flow. Cash flow generated by operations in excess of our capital expenditure requirements will be used to reduce our net debt.

General inflationary forces in the economy are not expected to have a significant impact upon our future results. Rather, our future profitability will be impacted mostly by our success in maintaining production levels and minimizing our operating and financing costs, such that we can compete effectively in a volatile marketplace.

Financial Statements and Summary Data

In four parts: Management's Report; Auditors' Report; Financial Statements; and Historical Summary

Management's Report *identifies management's responsibility for the preparation of the financial statements and this annual report and the accuracy thereof.*

Auditors' Report *outlines the scope of their audit and their opinion on the fairness and completeness of the disclosures set out in the financial statements.*

Financial Statements *present our financial position, results of our operations and the changes in cash flow on a comparative basis, all in accordance with generally accepted accounting principles.*

Historical Summary *provides pertinent financial and operating data summarized for the last three years.*

Management's Report

Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.

Calgary, Alberta
April 15, 1991

John A. Thomson, C.A.
Senior Vice President, Finance & Administration and Chief Financial Officer

Auditors' Report

To the Shareholders of Petromines Limited:

We have audited the balance sheet of Petromines Limited as at December 31, 1989 and 1990 and the statements of income (loss) and retained earnings (deficit) and cash flow for each of the years in the three year period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1989 and 1990 and the results of its operations and its cash flow for each of the years in the three year period ended December 31, 1990 in accordance with generally accepted accounting principles.

Calgary, Alberta
March 6, 1991

Arthur Andersen & Co.
Chartered Accountants

Financial Statements

Balance Sheet

December 31 (thousands of dollars)	Note	1989	**1990**
Assets			
Current Assets			
Cash		$ 1	**$ —**
Government incentives receivable		370	**355**
Receivable from parent	2	259	**—**
Note receivable from parent	2	—	**5,800**
		630	**6,155**
Investment in Affiliate	3	2,700	**—**
Property, Plant and Equipment, at cost		51,124	**59,253**
Less accumulated depletion and depreciation		(25,378)	**(31,694)**
		25,746	**27,559**
		$ 29,076	**$ 33,714**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 127	**$ 49**
Payable to parent	2	—	**227**
		127	**276**
Loans From Parent	2	43,111	**43,111**
Commitments and Contingencies	2		
Shareholders' Deficiency			
Share Capital	4	(15,790)	**(15,789)**
Retained Earnings		1,628	**6,116**
		(14,162)	**(9,673)**
		$ 29,076	**$ 33,714**

Signed on Behalf of the Board

R. G. Greene

R. G. Greene,
Chairman of the Board

W. L. Matthews

W. L. Matthews,
Chairman of the Audit Committee

Statement of Income (Loss) and Retained Earnings (Deficit)

Year Ended December 31 (Thousands of Dollars)	Note	1988	1989	**1990**
Operating Income				
Petroleum and natural gas revenues		$ 19,505	$ 24,222	**$ 30,890**
Royalties, net of credits		(2,088)	(2,402)	**(4,440)**
Production expenses		(5,644)	(4,373)	**(5,901)**
		11,773	17,447	**20,549**
Expenses				
General and administrative		75	204	**124**
Management fee to parent	2	1,950	2,425	**3,089**
Interest to parent	2	5,149	6,253	**6,454**
Capital taxes		—	21	**78**
Cash Flow From Operations		4,599	8,544	**10,804**
Depletion and depreciation		6,699	6,620	**6,316**
Net Income (Loss)	5 & 6	(2,100)	1,924	**4,488**
Retained Earnings (Deficit), beginning of year		1,804	(296)	**1,628**
Retained Earnings (Deficit), end of year		$ (296)	$ 1,628	**$ 6,116**

Statement of Cash Flow

Year Ended December 31 (Thousands of Dollars)	Note	1988	1989	**1990**
Operating Activities				
Cash flow from operations		$ 4,599	$ 8,544	**$ 10,804**
Change in non-cash working capital		2,037	(66)	**(5,377)**
		6,636	8,478	**5,427**
Financing Activities				
Issue (repayment) of loans from parent, net		750	(900)	—
Issue of common shares		—	36	**1**
		750	(864)	**1**
Cash Available for Investing Activities		7,386	7,614	**5,428**
Investing Activities				
Additions to property, plant and equipment		5,983	7,724	**9,637**
Proceeds on dispositions of property, plant and equipment	2	—	—	**(1,508)**
Government incentives		(1,301)	(107)	—
Investment in (divestiture of) affiliate		2,700	—	**(2,700)**
		7,382	7,617	**5,429**
Increase (Decrease) in Cash		4	(3)	**(1)**
Cash, beginning of year		—	4	**1**
Cash, end of year		$ 4	$ 1	**$ —**

Notes to Financial Statements

December 31, 1988, 1989 and 1990 with Tabular Amounts in Thousands of Dollars

The Company's business is the acquisition of petroleum and natural gas rights and the exploration for, and development and production of, crude oil and natural gas. All activity is conducted in the Plains area of Alberta.

1. Summary of Significant Accounting Policies

a) Property, plant and equipment

i) Capitalized costs

The full cost method of accounting for oil and natural gas properties and related expenditures is followed. Under this method, all costs related to the exploration and development of oil and natural gas reserves are capitalized. Capitalized costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on non-producing properties, and drilling of productive and non-productive wells. General and administrative and interest expenses are not capitalized.

Proceeds from the disposition of oil and natural gas properties are accounted as a reduction in capitalized costs, with no gain or loss recognized unless such disposition would alter the depletion and depreciation rate by 20% or more.

ii) Depletion and depreciation

Depletion of oil and natural gas properties and depreciation of production equipment and facilities are calculated on the unit-of-production method based upon:

- total estimated proven developed and undeveloped reserves, before royalty, as determined by independent engineers,
- total capitalized costs plus provision for future development costs of undeveloped reserves, as determined by independent engineers,
- relative volumes of oil and natural gas reserves and production converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

The estimated costs, net of salvage value, for future site restorations and abandonments are provided for on a unit-of-production basis and included in depletion and depreciation expense. Estimates are based on costs and regulations in effect at year-end.

iii) Ceiling test

The carrying amount of property, plant and equipment is limited to a "ceiling" amount as determined by a two part cost recovery test. Under Part I of the test, the carrying amount of property, plant and equipment is limited to estimated future net revenues from proven reserves as determined by independent engineers plus the cost of undeveloped properties less impairment. Under Part II of the test, the carrying amount of the property, plant and equipment net of deferred taxes is limited to the amount determined under Part I of the test less future production related general and administrative expenses, financing costs and applicable income taxes.

The calculation of future net revenues is based upon sales prices and costs and the Income Tax and Alberta Royalty Tax Credit legislation in effect at the end of the year.

At December 31, 1988 no write-down was required under Part I of the ceiling test; however in applying Part II, the carrying amount of property, plant and equipment would have been reduced to a nominal amount. A write-down to a nominal amount in the property accounts would not have been a meaningful result. However, it was indicative that under the economic environment and debt load of the Company at December 31, 1988, the Company would continue to incur losses and would be unable to retire its debt. Since management was unable to estimate the amount of future financing costs to be included in the ceiling test, management chose not to write the carrying amount of property, plant and equipment down to an arbitrary amount.

No write-down was required under either Part I or Part II of the ceiling test in 1989 or 1990. As at March 6, 1991, the Company would not have passed Part II of the ceiling test. The considerations set out in the preceding paragraph are applicable to financial statements that would be prepared at March 6, 1991.

b) Joint Ventures

The accounts reflect only the Company's proportionate interest in exploration and production activities that are conducted jointly with others.

2. RELIANCE ON PARENT

a) Renaissance Energy Ltd. ("Renaissance" or "Parent")

Renaissance owns 8,944,149 common shares at December 31, 1989 and 1990 representing 74% of the outstanding common shares. The Parent has advised that it will continue to support the Company in order for it to realize its assets and extinguish its liabilities in the ordinary course of business.

b) Receivable from (Payable to) Parent

The receivable (payable) arises in the normal course of operations. The amount is unsecured and does not have any specified repayment terms.

c) Note Receivable from Parent

On December 31, 1990, the Company loaned $5,800,000 to Renaissance. The principal is receivable on demand and bears interest at prime plus 2%.

d) Loans from Parent

A fixed charge debenture aggregating $43,111,000 is payable to Renaissance, bears interest at prime plus 1%, and is due on demand. The Company is contingently liable under the debenture for an additional obligation of up to $13,000,000. The obligation, if any, will be calculated in 1992 based upon average oil and gas prices in the period March, 1986 to March, 1992. Based on prices in existence from March, 1986 to December, 1990 management does not believe that the contingent obligation will become payable. The debenture is secured by certain property, plant and equipment. The debenture, including the contingent obligation, is convertible into Third Preferred Shares, Series A at a price of $25 per share. Renaissance has indicated its intention not to demand repayment of this loan prior to 1992 and, accordingly, the indebtedness has been classified as long-term.

On April 15, 1988 the Company entered into a financing agreement with Renaissance, whereby Renaissance agreed to lend the Company funds to a maximum of $10,000,000. Under this agreement, $2,700,000 was advanced in 1988 and 1989 and repaid in 1989. No loans were outstanding under this agreement at December 31, 1989 or during 1990.

e) Management Fee

The Company has contracted with Renaissance for the provision of management and administrative services for a fee equal to 10% of gross revenues.

f) Related Party Transaction

Included in 1990 proceeds on dispositions of property, plant and equipment is $1,294,000 received from Renaissance. The transaction was completed at fair market value.

3. INVESTMENT IN AFFILIATE

During 1988 the Company funded approximately $3,700,000 of petroleum and natural gas exploration and development expenditures of an affiliated company. The funding consisted of an investment in preferred shares for $2,700,000 and a short-term cash advance of $1,000,000. The affiliate, a joint exploration company for income tax purposes, renounced approximately $2,700,000 of tax deductions to the Company which have been reflected in Note 5. The short-term advance was repaid during 1989. The preferred shares were redeemed on December 31, 1990 for proceeds of $2,700,000.

4. Share Capital

a) Authorized

The authorized share capital consists of an unlimited number of common shares and an unlimited number of each class of First Preferred, Second Preferred, Third Preferred and Fourth Preferred Shares.

The following series of preferred shares have been authorized:

i) Third Preferred Shares, Series A
2,244,440 shares with a stated value of $25 per share carrying a cumulative quarterly dividend of 8.5% per annum. Each such share may be converted into one Third Preferred Share, Series B.

ii) Third Preferred Shares, Series B
2,244,440 shares with a stated value of $25 per share carrying a cumulative quarterly dividend equal to a per annum rate of 75% of the average prime bank rate in effect during each quarterly period. Each such share is redeemable at $25 at any time and is convertible into common shares at a rate of $0.25 per common share. However, conversion rights are limited to the extent that the holder of the preferred shares may not own more than 89.9% of the Company's outstanding common shares. Each Third Preferred Share, Series B is retractable following a period of five years from the date of issue.

b) Issued

Common Shares	Number	Consideration
Balance, January 1, 1988 and 1989	11,901,837	$ 1,174
Issued for assets	144,839	36
Balance, December 31, 1989	12,046,676	1,210
Issued for assets	2,617	1
Stated capital	12,049,293	1,211
Less excess of fair market value of shares issued over historical cost of assets acquired	—	(17,000)
	12,049,293	$ (15,789)

c) Reserved for Issue

At December 31, 1990, 224,444,000 common shares have been reserved for issue upon conversion of the Third Preferred Shares, Series B.

5. Deferred Income Taxes

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate to income (loss) before taxes. This difference results from the following:

	1988	1989	**1990**
Statutory tax rate	48%	44%	**44%**
Computed expected tax	$ (1,008)	$ 847	**$ 1,975**
Effect on income tax of			
Non-deductible Crown royalties	421	376	**1,173**
Resource allowance	(1,143)	(1,613)	**(2,175)**
Loss carryforwards available (utilized)	1,633	350	**(1,070)**
Non-deductible capital tax	—	9	**34**
Other	97	31	**63**
Deferred income taxes	$ —	$ —	**$ —**

As at December 31, 1990 the following deductions are available to reduce future income for tax purposes:

	Amount	Maximum Annual Rate of Claim
Canadian exploration expense	$ 1,046	100%
Canadian development expense	4,169	30%
Canadian oil and gas property expense	20,401	10%
Undepreciated capital cost	14,223	25-30%
	$ 39,839	

6. NET INCOME (LOSS) AND CASH FLOW PER SHARE

	Basic			Fully Diluted*		
	1988	1989	**1990**	1988	1989	**1990**
Net income (loss) per share	$ (0.18)	$ 0.16	**$ 0.37**	$ (0.18)	$ 0.03	**$ 0.04**
Cash flow per share	$ 0.39	$ 0.72	**$ 0.90**	$ 0.05	$ 0.08	**$ 0.09**
Weighted average number of common shares outstanding (000's)	11,902	11,914	**12,049**	184,346	184,358	**184,493**
Common shares outstanding at December 31 (000's)	11,902	12,047	**12,049**	184,346	184,491	**184,493**

* Calculated excluding the potential conversion of $13,000,000 of contingent debt (Note 2.c).

Historical Summary

December 31	1988	1989	**1990**	1990/1989
Financial (millions except per share amounts)				
Gross revenues	$ 19.5	$ 24.2	**$ 30.9**	+ 28 %
Cash flow	$ 4.6	$ 8.5	**$ 10.8**	+ 26 %
Per share				
Basic	$ .39	$ .72	**$ .90**	+ 25 %
Fully diluted	$ .05	$ .08	**$ .09**	+ 13 %
Net income (loss)	$ (2.1)	$ 1.9	**$ 4.5**	+ 133 %
Per share				
Basic	$ (.18)	$ .16	**$ .37**	+ 131 %
Fully diluted	$ (.18)	$ .03	**$ .04**	+ 33 %
Capital expenditures (gross)	$ 6.0	$ 7.7	**$ 9.6**	+ 25 %
Long-term debt	$ 43.3	$ 43.1	**$ 43.1**	—
Shareholders' deficiency	$ (14.0)	$ (14.1)	**$ (9.7)**	- 31 %
Number of common shares				
Basic	11.9	11.9	**12.0**	+ 1 %
Fully diluted	184.3	184.4	**184.5**	—
Operating				
Production				
Oil (thousands of barrels)	1,284	1,260	**1,397**	+ 11 %
Per day (barrels)	3,508	3,452	**3,826**	
Average selling price per barrel	$ 13.71	$ 17.19	**$ 20.47**	+ 19 %
Natural gas (billions of cubic feet)	1.3	2.1	**1.5**	- 26 %
Per day (millions of cubic feet)	3.6	5.6	**4.2**	
Average selling price per mcf	$ 1.45	$ 1.25	**$ 1.52**	+ 22 %
Reserves (proven and probable)				
Oil (millions of barrels)	11.3	18.1	**22.1**	+ 22 %
Natural gas (billions of cubic feet)	13.5	12.9	**10.5**	- 18 %
Wells drilled (gross)				
Oil	20	15	**12**	
Natural gas	5	—	**—**	
Dry	1	2	**1**	
	26	17	**13**	- 23 %
Undeveloped land holdings (thousands)				
Gross acres	10	10	**1**	- 88 %
Net acres	6	7	**1**	- 82 %

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J. Robert Paget*
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Calgary, Alberta

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Vice Chairman and Director
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Toronto, Ontario

Jonathan H. Deitcher*
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RBC Dominion Securities Inc.
Montreal, Quebec

Robert K. Dixon
President
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J. Dean Muncaster
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Bargain Harolds Discount Limited
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* Member of Audit Committee

Officers of Renaissance Energy Ltd. and Petromines Limited

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Chairman of the Board

Clayton H. Woitas, P.Eng.
President and Chief Executive Officer

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Vice President Production

Max Muselius
Vice President Marketing

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Treasurer

Stephen R. Horner, C.A.
Controller

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Arthur Andersen & Co.

Bankers

The Toronto-Dominion Bank

Evaluation Engineers

Sproule Associates Limited

Legal Counsel

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